

Free trade and trade related issues in Québec : the challenges of continental integration

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Summary

In order to answer the question as to what kind of trade policy might emerge between a sovereign Québec and the United States if independence were to occur, we will tackle a number of issues both directly and indirectly linked to free trade. In the first section, we will provide an overview of the effects of free trade on both the Canadian and Québec economies and societies. This presentation will allow us to pinpoint some of the differences and characteristics of the trade patterns between the US and Québec when compared to those between the US and Canada on the one hand, as well some of the differences and characteristics of the Québec position within the Canadian economic union on the other. Furthermore, we will open up the argument in order to take into consideration social indicators of integration, essentially because an underlying thesis in our approach rests on the fact that, contrary to ongoing beliefs, and passed a certain level of economic integration, an open economy has little to gain in terms of job creation and levelling of revenue distribution in pursuing further intensification of economic integration.

Our second line of argument rests on an altogether different rationale, one that belongs more to political economy than to trade policy. We will argue here that the latest phasis of continentalization, the one that was inaugurated by CUFTA, and subsequently enlarged with the signature of the North American Free Trade Agreement, far from furthering the integration of North America both at the economic and social levels has, on the contrary, increased the threat of dislocation. This is particularly the case in the Canadian context where free trade was promoted as a substitute to keynesianism as a more efficient mechanism of production and distribution whereas in Québec, the independence issue is tightly linked to a social agenda steeped in welfarism and a more socially responsible redistribution of total output. In this perspective, a Québec approach to free trade would of necessity be tied to welfarism in a manner that no Canadian government had to contend with, and all the more so since social issues fall under provincial jurisdiction. If both these factors are taken into consideration, an independent Québec could well find itself in the position of the reluctant bride rather than that of the aggressive suitor, as far as free trade with the US is concerned, contrary to prevailing convictions among Parti Québécois ministers among others.

We will address the question as to what the nature of trade policy between a sovereign Québec and the United States might be like if independence were to occur, and to provide an answer to this question, a number of issues should be addressed, for instance : What is the nature of the trade patterns between the partners involved? What are the trade patterns within Canada for that matter, and how are these affected by the North-South trade flows? What are the effects of Canadian-American free trade on the Québec economy? Once some kind of answer has been provided to these, and other incidental questions, we will be in a better position to tackle the main issue, which is whether, from a Québec point of view, it would be feasible to pursue a trade policy similar, or different from that pursued by the Canadian authorities on trade issues? Needless to say, our answer to this question should not be swayed by the fact that, either through conviction or strategic posturing, the Parti Québécois' (PQ) approach to this subject is one according to which the future Québec State should strive to diminish any controversy or potential disruption in its trade patterns and trade obligations. In fact, our own analysis should provide us with the means to establish the likelihood of a smooth transition in a context where social determinants and preoccupations could ride high on the agenda during the transition period.

The paper is divided into two sections : the first will deal with the effects of free trade on the Québec economy, as well as with other variables and, among them, on job creation; the second, with the effects of trade liberalization on economic integration in Canada and in Québec. We will conclude by proposing an answer to the question at hand concerning the future of trade relations between Québec and the US.

1. The two sides of free-trade

For the past seven years, the Canada-United States Free Trade Agreement (CUFTA) of 1989, later partially superseded and extended into the North American Free Trade Agreement (NAFTA) of 1994, have provided both Canada and the US with an overall legal framework covering the greater part of trade relations and issues between the two countries. A quick glance at trade relations between Canada and the US will provide us with an overall picture of the situation before moving on to a closer study of the Québec position.

Over the years, the effects of trade liberalization have been quite significant for both partners, since both countries' levels of exportation of goods and services to GNP have increased from 5,5% in the US and 20% in Canada in the sixties, to 8,5% and 24,5% respectively in the seventies and eighties, and have since then moved to 10,4% between 1990 and 1994, and subsequently to 11,1% in 1995 in the case of the US, and up to 28% between 1990 and 1994, then to 37,4% in 1995, in that of Canada¹. Overall, the US balance of payments shows a persistent deficit in three out of four items : the current account, the exchanges of goods, and more recently, a growing deficit in investment income, while posting a surplus in services, which, as is well known, has not averted the trend toward growing overall indebtedness. As far as Canada is concerned, commercial surpluses have been running high but, on the other hand, services and investment income show an important deficit compounded with a negative current account. What both

countries seem to share, as far as their balance of international payments can show, when we weight liabilities to GNP, is a deterioration of their international investment balance : foreign US liabilities have increased from 20,2% of GNP in 1981 to 51,6% in 1995, and Canadian foreign liabilities, from 58,8% in 1983 to 86,6% in 1995. At the same time, the percentages of foreign assets to GNP have increased from 32,2% to 40,4% over the same period in the US, and from 23,5% to 42,9% in Canada, a few percentages higher than in the US.

If we break down total Canadian exports of goods by provinces, on the national accounts' basis and not, as we did above, on balance of payments' basis, we find that Québec's share remains quite stable over the years, barely slipping from 19,6% in 1981 to 19% in 1994, while Ontario's share increases from 40,3% to 49,3% over the same period; on the importation side, percentages are 24,8% down to 22,3% for Québec, and 43,6% up to 52,1% for Ontario. If we look at the balance sheet, up until 1994, Québec's commercial balance of goods ran a deficit overall which peaked at 3,4 \$can. billions that year, while that of the neighbouring province has generally been positive, posting a surplus of 2,8 \$can. billions the same year. In 1995, and for the first time in twelve years, Québec posted a surplus in its commercial balance of goods. Finally, as far as the balance in services is concerned, both provinces run an important deficit, and Ontario more so than Québec. Graphs 4 and 5 illustrate these tendencies for the two provinces, in dollars and in percent of Gross Domestic Product.

International exports and imports flows out of, or into, Québec have been more and more concentrated on the US with the result that, from 1992 to 1995, total percentage of exports to the US have climbed from 76,1% to 81,9% of all exports while, for instance, during the same span of time, exports to the European Union (EU), declined from 12,1% to 9,4%. Furthermore, Québec exports are concentrated on five basic products with aluminium leading the way, followed by telecommunications, newspaper, automobiles, and planes counting for 40% of all exports. If we analyse the comparable data for Canada, four conclusions should be made : first, the Québec economy is highly dependent on US market, and even though percentages of dependence are very high indeed in both cases, Québec is overall more dependent on US markets than the Canadian economy as such, but less so than Ontario; second, the annual rate of growth of exports in the manufacturing sector in Québec is lagging behind that of Canada; third, Québec exports are concentrated on the five basic products listed earlier which nevertheless post a slower growth rate than the less technologically advanced sectors like tobacco, textiles, and furniture, with the result that, and this is our fourth point, the growth of Québec exports to the US is not primarily tied to gains in productivity. If we compare the Québec situation under this heading to that of the Organization for Economic Cooperation and Development (OECD), less the US, and non OECD countries, we find that, in the former cases, 56,9% and, in the latter 76,1% of growth in exports is imputable to improvement in competitiveness whereas, in Québec, the percentage is 47,6%, with the result that the rate of growth of Québec exports to the US is, to a large degree, tied to the growth of American demand itself which account for 45,6% of the growth in question (Le Québec statistique, 1995). Generally speaking, gains in competitiveness are present in 19 industries out of 22, but this overall figure does not give an adequate picture of the actual

distribution between industries. If we take a closer look, we find that these gains in competitiveness are made in electrical products and electronics (50%), and in the first transformation of metal products (31%). On the other hand, losses in competitiveness are concentrated in transport material industries, beverages, and wood. Furthermore, these gains on the part of Québec firms on the American market are made at the expense of American suppliers and, to a lesser degree, at the expenses of non OECD members but not, it is interesting to add, at those of OECD countries.

Table 1 gives another interesting look on the profile of Québec's manufacturing sector. It allows to see new tendencies in production, exports and employment, as well as importance of exports in percent of deliveries for the 22 main industries. High and medium technological industries represent now (1995) more than 42 percent of total deliveries and about 53 percent of total exports. Exports in percent of deliveries amount, respectively, to 53 and 67,5 percent. However, it should be noticed that, if low technological industries represent only 29,5 percent of deliveries and 17,7 percent of Québec's international exports, they concentrate almost 40 percent of total labour force.

There are two incidental remarks that we should make in this regard : the first, that it would be most interesting to pursue the investigation further along these lines and to identify where the competition to Québec industries lies within the American market itself; second, that we need to discriminate between trade proper and intra-firm trade if we are to understand the rationale behind the evolution of trade flows between Québec and the US.

Concerning the first point, and for the time being, we can only say that the competition coming out of OECD countries does not mean that Québec is in direct competition with Canada on American markets; on the contrary, available data would suggest that Québec exports are more and more widespread and geographically distributed within the US, and less concentrated on the Eastern States as they were historically (P.-P. Proulx, in Lachapelle, 1995). Be that as it may, there still remains a central question : is the drop in Québec exports to the EU in some way tied to a loss of a competitive edge vis-à-vis European firms on the American market itself? Or, to put the question in another light : if Québec firms had been able to maintain their level of exports to the US market at the expense of European exports, would'nt they have had better chances of keeping a stronghold on the European market itself? If we could come up with a satisfactory answer to this question, we would be in a better position to point out some of the shortcomings of Québec's industrial structure itself; unfortunately we are, for the time being, lacking in data which could yield the necessary information. In the meantime, our next point could provide us, if tentatively and incidently, with a clue on this issue.

Concerning the second point, we can offer some indications that are quite interesting, and if, here again, we do not have at our disposal the pertinent data for Québec itself, what we do know about the Canadian economy generally will allow us to probe further the nature of the trade relations between partners in the North American context. It is a well known fact that an important percentage of the trade flows between Canada and the US is basically intrafirm trade. It is worth recalling, in this regard, that 50,3% of all American

exports to, and 42,7% of all imports from Canada are done through multinational firms (MNF), whereas total US intrafirm trade counts for 30,15% of all exports and for 19,6% of imports. Considering that Canada accounts for 21,6% of all American exports and 19,2% of imports, we have here a most interesting indicator of the level of economic integration between the Northern partners. In fact, in the years following the signing of free trade pacts in North America, it is not only the overall trade flows between partners that are affected but, more specifically, intrafirm trade itself, and to an even greater degree, intrafirm trade between American companies on both sides of a given border, Canada to the North, Mexico to the South. What this implies is that free trade, in such a context, is less a strategy that serves to enhance trade flows in general, but seems to be more oriented toward an enhancement of intrafirm trade on the one hand, and more specifically toward the intensification of trade flows within and between American parent and their subsidiaries in other countries, on the other hand. And in this regard, because Canadian subsidiaries of American firms are more integrated to their parent companies, and have been so for a longer time span, than American MNFs in other countries, the intensification of transborder trade flows within firms is more advanced and proceeds at a quicker pace in the Canadian-American context than in others, with the notable exception of the progression of intrafirm trade done through Mexico.

This being said, we have no reason to believe that this depiction of prevailing tendencies within the Canadian economy would fail to apply to the Québec situation as well, which means, in other words, that bilateral free trade between Québec and the US would, in all likelihood, and as far as these interests are concerned, be negotiated for basically the same reason of enhancing intrafirm trade, on the US part at least, and carry with it the same overall effect of intensifying intrafirm trade itself.

We can sum up at this point by saying that, in recent years, Canada has done very well indeed in international trade. As former International Trade minister Roy MacLaren pointed out in his year-end report for 1995, Commerce furthers growth and job creation, Canada's trade performance has been most remarkable when compared to that of the seventies, and he went on to add : "Canadian exports are now growing at an unprecedented rate (...); exports now count as the one most important factor in our GNP's growth, and as one of the most important factor in job creation". In fact, for each billion dollars in exports, 11 to 12 000 jobs are maintained. And this would apply as well, proportionally, to the Québec economy as we have seen.

But, as we have hinted earlier, there are a number of questions and issues for which trade figures are of little use. Economic and social well-being cannot be measured by export and import figures alone. In fact, for all the expectations that were built up around surges in trade flows, the economy in general and job creation in particular, have remained stubbornly sluggish in Canada, and more so in Québec. As a case in point, employment in Québec increased by a mere 1,5%, from 3,1 to 3,2 millions, in 1995, down from the 2,4% of 1994, and if we break these figures down, we find that employment in the manufacturing sector has actually declined from 569 000 in 1994 to 532 000 in January of 1996, and in the service sector as well, from 1,175 to 1,171 million. Unemployment figures have remained high at 11,3% in 1995, and 12,6% in 1996, while levels of activity

have remained low at 62%, one Canada's lowest; as a point of comparison Alberta's unemployment rate stood at 6%, and its level of activity, at 71,8% in December of 1996 (Graph 2). Average weekly pay has, in the meantime, remained stable at 546\$can. in 1995, below the Ontario average of 610\$can., and even below the Canadian average of 572\$can (See Graph 3). What this means, basically, is that labour costs remain low in Québec, that they increase at a slower rhythm, 0,7%, compared to both Ontario and Canada, 0,9%, and US labour costs at 1,3%. All in all, in 1995, for instance, labour costs in Québec were, on average, 13% lower than they were in the US; in fact, labour costs exceed the US costs in two sectors only, first transformation of metals and paper (MICST, 1996).

If we now try to tie together trade figures and employment data, we find that an increase in output does not translate in an increase in employment. For instance, between 1990 and 1995, output in a few chosen manufacturing export-oriented sectors has increased markedly while total employment fell; in fact, if we compare two sectors, first transformation of metals and metal products, the first with a surge in the value of output, the second with a slight decline, we find that the decrease is not as pronounced in the first case as it is in the second.

What this points to is that international trade is probably quite beneficial, and especially beneficial to the transnational firms that engage in exportation and importation, but that whatever its other benefits are, job creation is not one of them.

If one looks beyond the balance of current accounts and, more generally, beyond trade figures, in view of establishing the net effects of growing trade dependence in terms of job created, for instance, one must come to terms with the unescapable conclusion that, in given circumstances, the beneficial effects of free trade on employment simply do not exist. In other words, there are no direct positive relation between the two variables.

2. The Canadian economic union and Québec

We will change our focus and tackle a different issue, one that is not generally linked to free trade, and which has to do with the Canadian economic union proper. For sure, continentalization has, for quite a long time now and since the Second World War in particular, been one of the most striking characteristics of the Canadian economy. This is but another way of saying that the Canadian economy is highly integrated to the American one. Nevertheless two further indications should be provided in this regard : the first, that the continentalization process seems to be now entering a new phase whereby, instead of moving toward a more integrated whole, the Canadian economy itself seems on the contrary engaged in a process that could lead to some form of dislocation of its economic union; the second, that this path has not, contrary to what was intended initially, been averted by free trade for it appears that free trade has rather enhanced the negative effects of the process of continentalization instead of reducing them.

As a case in point, and to address the first issue, it is interesting to recall that, in the Canadian context, provinces like Ontario or Québec produced first and foremost for their own internal markets, secondarily, for the Canadian market, and lastly, for exterior ones. In 1974, for instance, 49,1% of total delivery of manufactured goods in Québec were intended for the provincial market, 37,3% for the Canadian one, and 13,6% for foreign markets. In 1989, the corresponding figures are 49,2% for internal markets, 24,8% for the Canadian one, and 26% for foreign markets. Recent data on this subject, although now calculated in terms of exportations of goods on GNP, bear this point in a striking manner since exports to foreign markets in 1994 now make up 25% of Québec's GNP and 35% in the case of Ontario, while exports to other provinces make up only 14% of GNP in Québec and 11% in Ontario. In other words, deliveries of goods to other provincial markets take up a smaller proportion of total production while those to foreign markets would tend to take up a larger share. As far as exportations of services are concerned, the picture is different and while these remain modest since, for the same year, exports of services to foreign markets stood at 4,5% of GNP in Ontario, and at 3,4% in Québec, at the same time, exports of services to other provinces have increased significantly from 6,6% to 9,3% between 1981 and 1994 in Ontario, and from 5% to 6,6% over the same period in Québec. On the basis of these data, a number of conclusions can be made : first, that both Québec's and Ontario's economies have high degrees of openness even though the level of openness is higher in the latter case; second, Ontario's economy is still by far the stronger one with 40,4% of Canadian GNP and 38,7% of total employment, while Québec's economy stands at 22,4% of Canadian GNP and its share of total employment at 23,7%, third, the share of intra-provincial trade in goods to GNP, for both provinces at least, is gradually decreasing while intra-provincial trade in services is increasing, even though this process is less significative in Québec's case.

Furthermore, not only are trade flows between Québec and other provinces less important, in relative terms, to trade flows with foreign markets, but the internal balance of trade between Québec and the other provinces is somewhat favourable to Québec except in the case of its trade balance with Ontario.

A new frame of reference

To put these findings in perspective, and moving on to a more general and historical level, we find first and foremost that the implementation of keynesianism in the Canadian context from the Second World War onwards has induced a serious complexification of macro-economic policy management since, instead of an articulated approach between federal and provincial governments, it has generated duplication, contradiction, and friction, with the net result that instead of one articulated economic policy, we had to contend with eleven: one per province and one at the federal level. This has been labelled by certain authors the process of "balkanization" of the Canadian economy, a metaphor that carried a certain validity at the time (Trebilcock & al, 1983). Another source of difficulties in the management of economic policies came from the outward-oriented characteristics of the Canadian economy and from the growing deficit of the current account in the balance of payments (Kalisky, 1966; Ostry, 1988).

To these factors, a second set of causes, political in nature, should be added, causes that tend to intensify and polarise the process of "balkanization" around one all-encompassing issue; we refer here to the growing political imbalance created by a deepening of the "Quebec question" and, in particular, to the pervasive political insecurity surrounding the 1980 referendum on the status of Quebec in the Confederation held at the instigation of the Parti Québécois, the separatist political formation that had been elected for the first time in 1976.

If we now proceed to the international scene, we should take into consideration both the deterioration of Canada's economic position over the years vis-à-vis its international partners and its growing de facto economic and ideological dependence vis-à-vis the United States. Both processes have affected Canada's political standing in the world; where the country as a whole still enjoyed a relative measure of autonomy during and following the Second World War and up until the seventies as a standard-bearer of welfarism on the world scene, such is no longer the case at the beginning of the eighties when conservative agendas take the lead in the UK 1979, in the US in 1980, and then in Canada in 1984. Since then the political ethos of these countries has been greatly influenced by ideas that belong to what some analysts have called the "conservative revolution" (Nisbet, 1985; Brunelle, 1987; Cooper, 1988). All in all, these factors contributed to the consolidation of an alternate world-view founded on different strategies and linked to new modes of intervention, a world-view that was to have profound repercussions on continentalism in the Americas (OCDE, 1988; Deblock et Gislain, 1986).

Set up in a time of crisis not without parallel to that of the thirties, the Royal Commission on the Economic Union and Development Prospects for Canada, also known as the Macdonald Commission, offers both a unredeemable critique of the Rowell-Sirois Report's frame of reference and a definition of a new set of parameters to deal with what it defined as a new global context. These parameters can in fact be interpreted as counter proposals to what had emerged out of the Rowell-Sirois Report tabled back in 1940, a report that had initially recommended the application of keynesianism in the Canadian context. It comes therefore as no surprise if the strongest critique in the Macdonald Report has to do with Keynes and the definition of a keynesian political economy. Although this has not been stressed much by commentators, in our view this rebuttal of the pursuance of an internal equilibrium as being the main purpose of state intervention, is the most significant departure from accepted and tested ideas in the Canadian context. At this level, the reasoning of the Commission is quite simple, and runs something like this: if keynesianism, instead of leading to a coherent set of rules and an efficient allocation of responsibilities between the federal and provincial governments has, on the contrary, fostered province-building and a waning of federal supremacy in socio-economic affairs, one should therefore resort to an alternate economic and social philosophy. This philosophy should proceed to give back to the market its central rôle as the determinant factor in the development of the economy as a whole and to reinstitutes the market's function as the main mechanism of distribution within the national society.

Thus what has been labelled the neo-liberal angle or bias of the Macdonald Report should not be attributed solely to the concurrent emergence of conservative ideas and programs in the North American ideological mainstream, but should also be seen as the setting of a new political economy. The decidedly pro-market option of the Macdonald Report represents a significant departure from the philosophy of state intervention advanced by its predecessor, the Rowell-Sirois Report and in this sense, the recommendation to the effect of opening trade negotiations with the United States in view of signing a free trade agreement, is but a logical consequence that comes out of a theoretical model and not, as is sometimes believed, the application of a basically strategic reorientation.

Once a new theoretical frame of reference has been substituted to the previous one, it follows that its implementation requires the redefinition of a constitutional arrangement and that it is therefore necessary to redefine the respective responsibilities of the federal and provincial authorities. In this regard, the recommendations of the Macdonald Report institute what amounts to a "new federalism" when they propose that the federal and provincial governments agree on codes of good economic conduct. This rather bland solution should not conceal the fact that the main constitutional restructuring of responsibilities of both federal and provincial governments had in fact occurred before the Commission itself had been set up with the adoption of the Canada Bill in 1982. Finally, as far as the question of social legitimacy is concerned, the Report substitutes new forms of socio-political engineering to the tripartite consultations between the State, business and unions that had prevailed up until then.

In this perspective, rejection of keynesianism on the part of the Macdonald Commission came out of its own interpretation of the fundamental causes of the crisis that led to patriation, and out of the need to redefine those basic parameters that had left the country on the brink of internal dislocation. Foremost in this interpretation, is the idea that the Canadian practice of statism both at the federal and the provincial levels was at the root of the problem. Consequently, the philosophy that was at the base of this practice should be discarded in favour of a philosophy that reinstated the primacy of market forces. In this regard, the recommendation to implement a free trade area between Canada and the United States is explicitly advanced as a secondbest theory by the drafters of the Macdonald Report themselves; the ideal answer to Canada's predicament would, in their view, have been a more global restructuring of the economy geared to other continental and transcontinental markets as well, but it is readily admitted by one and by all that such idealism cannot possibly prevail against realism, with the result that the only option left was the resort to a free trade agreement between the two neighbours, and this is in fact one of the main recommendations of the Commission (Brunelle and Deblock, 1989). Finally, it is interesting to underline that the Macdonald Report had developed its own original approach to the Québec question and had come up with the proposal of recognizing Québec as a "distinct society", an idea that has since doubly perished, first in the wake of the Meech Lake fiasco, in the Spring of 1990, and second, in the wake of the rejection of the Charlottetown Accord, in the Autumn of 1993.

There follows from our argument here, three important consequences. First, we are now in a better position to understand the global approach advanced in the Macdonald Report

with its critique of past practices of statism in the Canadian context. Since Canada had erred by defending an indigenous solution to problems of political economy, the country now had to bear the brunt of long overdue adjustments. It is quite significant that the Report had very little to say about American political economy and its effect on the Canadian economy, with the result that past contentious issues are superbly ignored; one has but to evoke the question of foreign ownership of Canadian industry and services, an issue that seemed quite important in the early seventies, to make this point clear.

Second, a strategy assuming unilateral dependence implies a tacit rejection of any kind of supranational political entity that would supervise and monitor regional integration within North America. Thus the Canadian government had, to all intent and purposes, relinquished the idea of implementing a strategy akin to that which is being institutionalized in Western Europe among the EU partners. For sure, the mere thought of a Continental parliament could have seemed totally unrealistic then, as it still seems unrealistic now under NAFTA, but it could prove very rich indeed if the perimeter of the North American economic bloc is extended to encompass other countries of the Americas.

Thirdly, the defensive strategy advocated by Canada has proven to be a serious handicap in its own dealings with the provincial governments, basically because the government had relinquished a great deal of its own historical value system with the result that it refused to broach social issues and to consider the implementation of measures to counter the spill-over effects of economic integration into the social sphere.

Conclusion

Coming back to the question at hand concerning the kind of relationship that might exist between the US and a sovereign Québec, should independence ever occur, we can focus on the following elements.

On the surface of things, economic integration and the process of continentalization in North America should allow for a better and a more rational use of resources and an optimal distribution of revenue among factors of production. At least, this is what conventional wisdom, as well as prevailing theoretical arguments, would have us believe. Unfortunately, economic and social facts seem particularly impervious to these rationalizations with the result that we have to contend with a different reality altogether: first, not only are prevailing schemes of distribution progressively more detrimental to the average wage earner, a fact that puts in jeopardy the traditional linkage between economic and social integration but, at a more deep-rooted level, the eventual dislocation of the Canadian economic union, precisely because it would affect two highly integrated economies, would in all likelihood have far-reaching consequences for the economic structure of North America as a whole.

Concerning the first point, we have only to recall that, in 1974, 5% of the wealthiest among the Americans shared 16,5% of the national revenue, whereas the poorer 20% had to contend with 4,3%; twenty years later, the same one twentieth of the total population

claimed 21,1% of the national revenue, while four times as many poor had to make do with 3,6% (Le Monde Diplomatique, Jan. 1997, pp.16-7). More to the point still, is the fact that, between 1983 and 1989, the top 1% of the population pocketed 61,6% of the increase in wealth, while the bottom 80% shared 1,6% (Danaher, 1996), a tendency that the opening of the borders has failed to reverse since we see precisely the same kind of widening of the gap between the haves and the have-nots establishing itself in Canada and, consequently, in Québec as well.

Concerning the second point, we want simply to draw the attention to the fact that the shifting of axes of industrialization are a permanent fixture of our common economic and social history; the US saw their own industrial axis shift from the Eastern seaboard to the Great Lakes and, these past decades, from what some have called the Frost Belt to the Sun Belt. In Canada, we have had to contend, to a lesser degree, with similar shifts from the Central provinces of Québec and Ontario to Ontario proper and the West of the country. But what, at first sight, appears quite paradoxical is the fact that the threat of an eventual dislocation of the Canadian economic union seems heightened rather than lessened under a regime of free trade. Could it be that there is no paradox at all, and that the implementation of free trade within North America, while allowing for an industrial localization or relocalization as the case may be, encourages separation on the part of Québec? In other words, could it be that the resort to free trade on the part of Canada furthered economic dislocation instead of averting it? This outcome is all the more unexpected since both major political parties in Québec, the PLQ as well as the PQ, are both committed to free trade and they have both been staunch promoters of the idea since it first surfaced in the mid-eighties on the political agenda of the federal government. How is it then that a common economic platform can be turned around so to speak, and be used, specifically by the PQ, contrariwise to the initial intentions of its promoters?

The answer to the last question, as well as the solution to the apparent paradox, lies simply in the fact that the PQ's approach to free trade is much more tied to its own so-called social-democratic option, than the PLQ's idea of free trade which is but a replica of the Liberal's option at the federal level. Now then, as far as social issues are concerned, a long-standing dedication on the part of Canada and the United States to economic multilateralism defined on strictly commercial lines is too deeply rooted in political ethos and economic practice to allow, especially on the US part, for a resort to a bilateral agreement that would incorporate social preoccupations. Such an alternative is all the more unrealistic in the present political context, since neo-liberalism, both in Canada and the US, has probably never been so unchallenged in recent history. In line with this logic, when social or environmental issues are opened up for discussion, their handling is entrusted to a separate agreement submitted to an altogether distinct rationale which has little to do with the main issue which is the negative effects of economic integration and this is precisely what we now have with the two side agreements to NAFTA on labour and environmental issues.

Furthermore, both Canada and the United States operate under federal systems where the rules of devolution are such that responsibility over social affairs have been entrusted to provincial and State authorities. The American Constitution and the British North

America Act of 1867 have enacted such provisions with the result that the tabling of social issues at the federal level could well be interpreted as an intrusion into provincial or State prerogatives. In this respect, trade issues carried by a Québec government bent on negotiating a bilateral trade agreement with the US, would of necessity be intertwined with social issues to a degree which no other government in North American had to contend with before. Social agendas dit not count as a prominent issue as long as the difference in the degree and level of involvement between two countries remained symmetrical, but this would no longer be the case. Therefore, social issues that were evaded in negociations between partners of comparable wealth and status, and operating under comparable systems of devolution of social responsibilities, probably will not be so easily eluded if an agreement were sought by respresentatives of an entity directly endowed with social responsibilities and social expenditures, an entity furthermore whose legitimacy would in great part rest on its capacity to come to terms with the negative social effetes of free-trade. In the end, the paradox we alluded to earlier is essentially borne by the PQ itself since it ends up being at the same time the bearer of the negative effects of free trade and the one who wants to negotiate a similar agreement for the province. But Québec's trading partners need not concern themselves with what will, in all likelihood, be essentially an internal challenge.

In this regard, Québec's insertion into the North American economic structure could well mark a new beginning for free trade as we now know it. It could either mean that there is a viable and simple way out of economic dislocation and that free trade can easily come to terms with the drawing of new political maps, or on contrary, it could lead to an overhaul of free trade agreements whereby some consideration would be given to the negative impacts of unreglemented transborder trade. The final question as to which road will be taken if independence occurs, is basically tied to two unknowns : the overall costs of dislocation itself in American eyes on the one hand, the costs of social instability for the weakest among the partners involved on the other.

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¹ Unless otherwise mentioned, data used in this section come from Deblock et Benessaïeh (1997), Bureau de la Statistique du Québec (*Exportations internationales du Québec*) and Statistics Canada (*Provincial Economic Accounts*, ndeg.. 13-213).